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Latin America Review



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21 June 1985

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21 June 1985

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**Latin America
Review**

21 June 1985

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*Articles have been coordinated as appropriate with other offices within CIA.
Comments and queries regarding this publication may be directed to the Chief,
Production Staff, Office of African and Latin American Analysis,*

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Articles

Chile: Signs of Military Dissidence

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The once solid support of the armed forces for President Pinochet may be eroding somewhat. Although we lack extensive information on the military, [] on several occasions since 1982 have privately expressed reservations over Pinochet's policies and actions. These usually were short-lived, but over the past year military disaffection has appeared to be more persistent []

[] although the high command initially endorsed the state of siege imposed last November—viewing it as necessary to curb leftist terrorism—[]

[] senior officers of most of the services recommended against extending the measure in February and again in early May. []

[] some officers question the policy of stretching out the timetable for a transition to democracy. []

Despite these rumblings, we believe the highly disciplined armed forces remain basically loyal to Pinochet, and, whether they personally support him or not, most officers evidently fear that there is no acceptable alternative to Pinochet, at least in the near term. They also are kept in line by Pinochet's skillful use of rewards and punishments and by an apparent conviction that they have a "mission" to remake Chile. Nevertheless, dissatisfaction within the military probably will grow in the coming months if the President remains obdurate about not relaxing political restrictions, leftist terrorism continues unabated, relations with Washington worsen, and Chile plunges deeper into a severe economic recession. []

Military-Opposition Contacts

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In contrast to the pattern in other South American countries ruled by the military in recent decades, Chilean military officers assiduously avoided direct dealings with politicians—especially those from the opposition—throughout most of the period since the 1973 coup. Nevertheless, over the past two years, there has been []

[] meetings between a few disgruntled officers and opposition figures. []

[] sustained substantive talks may have taken place for sometime. []

[] The main opposition groups involved initially were unidentified factions of the Christian Democratic, Socialist, and Radical parties. Later, the conservative National Party reportedly played a leading role in the discussions. []

[] a Venezuelan press story—claims that the National Party is in touch with Navy and Air Force officers who are seeking a "negotiated" alternative to Pinochet in order to avoid civil war. These officers are said to have arranged meetings between opposition representatives and a select few Army colonels and at least two generals. While Air Force and Navy officers reportedly have given vague promises of assistance for an effort to oust Pinochet, they have made clear they will do nothing until Army combat commanders take action. []

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The Christian Democrats believe, []
[] that Army combat commanders will not move
against Pinochet any time soon, []

[] the talks
reportedly stalled because the military participants
insisted on receiving a commitment from the political
party representatives that once Pinochet is ousted the
military will be treated with "decorum" for having
carried out his orders. []

Other Stirrings in the Armed Forces

Over the past year, senior military officers
occasionally have manifested deep reservations about
some of Pinochet's actions, []

[] For example, despite wholehearted
military support for the President's decision to impose
the state of siege on 6 November, the high command
was taken aback by the resignation a day earlier of
Interior Minister Jarpa, who opposed Pinochet's
harder line. []

[] three of the four members
of the junta concluded that greater caution was
needed and that Jarpa should not be replaced by a
hardline civilian or military officer. Jarpa was in fact
reappointed, reportedly at least in part due to pressure
from the junta. []

Support for the state of siege dwindled quickly and its
extension became a source of military grumbling
against Pinochet. []

[] by early January the intelligence directorates
of the four services advised their commanding officers
to recommend to the President that the state of siege
be lifted because of its excessive budgetary costs and
the wear and tear on enforcement personnel.

[] senior
officers of the Carabineros—the militarized national
police force chiefly responsible for population
control—prevailed upon their [] commanding
general to oppose extending the state of siege because
it was causing morale problems and damaging the
Carabineros' public standing. []

[] other junta members sought to convince Pinochet that
the state of siege not only was no longer necessary,
but also that it was exacerbating domestic political
tensions and harming Chile's international image.

The junta bowed to Pinochet's insistence on renewing
the state of siege on two different occasions, but by
early May regime spokesmen were claiming publicly
that terrorist activity had been effectively curbed. The
armed forces' reaction to these moves—and to the
firing of Jarpa by Pinochet in February—was muted,
but, in our view, their concern probably is growing
because the President's harsh policies are fueling
polarization and leftist terrorism continues. We
believe that Pinochet's decision finally to suspend the
state of siege on 17 June was motivated in part by the
realization he could no longer remain unresponsive to
the recommendations of senior military officers.

Pinochet's Carrot-and-Stick Approach

Pinochet, in our view, probably will continue to use
several customary devices to exert influence over the
officer corps. These include: direct control over
assignments and promotions, placement of senior
officers in key government positions, strict limitations
on involvement of military personnel in political
activities, and vigorous reprisals for challenges to his
authority. The US Embassy reports that of the 52
active-duty Army generals, 29 are considered
hardline, unswerving supporters of the President.
More important, virtually all troop commands or
other key positions in either the Army or the
government are filled by officers regarded as
hardliners. Moreover, []

[] Pinochet has kept on active duty a select
group of loyal officers who are well beyond statutory
retirement age. []

The US Embassy notes that few senior Army officers
are willing to criticize Pinochet's policies—even in
private discussions with other officers. Those who do
are identified readily, and Pinochet is kept informed
of their statements and activities by a long-established
informant system that reports through the chain of
command directly to him, []

[] The US Embassy reports that the
Navy and Air Force are less rigid in this regard and
that both of these services, along with the
Carabineros, have more dealings with the civilian
sector. []

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Pinochet remains especially sensitive to indications that officers may be discussing the pace of a transition to democracy, [REDACTED]

One of the participants in these discussions, Brig. Gen. Luis Danus Covian—who is known to favor an early return to civilian government—was transferred last December to southernmost Chile, [REDACTED] to isolate him in a non-Army command position. The regional Army division commander reportedly was ordered to keep watch over Danus. [REDACTED]

[REDACTED] For the past five or six years, Pinochet has been paying a monthly stipend of about \$400 directly to each of the general or flag officers of the armed forces, and possibly the Carabineros, drawn from a secret presidential slush fund. This system reportedly was begun soon after Pinochet fired the commander of the Air Force in 1977—a move that led to the resignation of almost the entire Air Force general officer corps. [REDACTED]

[REDACTED] The US Embassy notes that apart from this system, the level of corruption in the Chilean armed forces is remarkably low by Latin American standards. [REDACTED]

Outlook

There is, in our view, little prospect for an early challenge to Pinochet from within the armed forces or for an appreciable number of senior officers to collaborate with opposition politicians in a move to oust him. The conflictive political situation and worsening economy, nevertheless, suggest a possible trend in that direction and thus pose potentially serious risks for regime stability over the next few years. Polarization is deepening as even formerly proregime conservative groups are moving into opposition, and moderate political parties continue to clamor for an accelerated transition and Pinochet's departure. Meanwhile, the far left, especially the

Communist Party, appears to be gaining strength—despite the state of siege—and moving deliberately toward a state of armed insurgency. The Communists insistently propagate the notion that their violent strategy is the only viable one to bring down Pinochet, and at least some Christian Democratic Party leaders reportedly are prepared to cooperate with the Communists. [REDACTED]

On the international front, Pinochet faces increasing pressure to lift his harsh political restrictions and speed up the transition process. He recently complained to US officials about Washington's call for lifting the state of siege as a condition for US support for Chile's renegotiated debt package. [REDACTED]

Consequently, in our view, if the political and economic crises drag on, the armed forces will increasingly question Pinochet's leadership, and the latter's carrot-and-stick approach may begin to lose effect. If terrorist activity also continues unabated and large-scale, broad-based antiregime protests resume during the next few months, an inflexible Pinochet may begin to see his authority challenged by some officers. The military almost certainly would continue to rally around the President on the need to contain forcefully the leftist threat, but the Carabineros, the Air Force, and the Navy probably would resist reimposing the state of siege as the primary instrument for this purpose. If the Army is required to use troops to control serious social unrest, such as spontaneous riots in slum areas, mass demonstrations in Santiago, or wildcat labor strikes, Pinochet's problems would be compounded. We believe that the continuation of such an atmosphere over several weeks and Pinochet's insistence on continued repression would cause at least some groups in the armed forces to begin advocating his removal from office. [REDACTED]

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Cuban Tourism: Prospects for Development

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In the past few years, Cuba has undertaken a major effort to improve its tourist industry after largely neglecting it since the 1960s. Over 200,000 tourists—many on package tours from Spain, Mexico, and Canada—visited Cuba last year. Efforts to develop tourism have thus far been concentrated in Havana, the Varadero Beach area 75 miles east of the capital, and on Cayo Largo, a small island 25 miles off Cuba's southwestern coast. In addition to the construction of hotels, shopping centers, and recreation facilities at these locations, Cuban tourist officials have been engaged in an active worldwide promotional effort. Cuba has been aggressively seeking Western investment in these projects, but so far has generated little interest, primarily because the US embargo prevents most US citizens from traveling to the island. Cuba's untested labor force, its restrictive foreign investment law, as well as its general economic inefficiencies, also probably have discouraged Western investors and tourists. Moreover, President Castro's recent ban on travel by Cuban-Americans to the island—in response to the startup of Radio Marti broadcasts—will be a severe impediment to the tourism sector.

Tourism's Contribution to the Economy

Tourism ranks a distant third behind oil reexports and sugar as Cuba's leading hard currency export earners. Havana earned about \$75 million in hard currency from tourists—approximately \$365 per person—in 1984. The 39,000 tourists from Communist countries contributed a much smaller proportion of that sum than did Western tourists.

Tourist travel to Cuba, although much greater in recent years, still is well below the levels of the 1950s when about 300,000 tourists visited annually, making the island one of the leading resorts in the Caribbean. The loss of the US tourist market in the early 1960s, coupled with the Castro regime's revolutionary strictures against gambling and other vices, resulted in a steep decline in visits to the island by Western tourists. Havana lost most of its Western tourist trade to other Caribbean islands that, in contrast to Castro's Cuba, offered first-rate accommodations,

restaurants, and entertainment. Although more Western tourists—some 168,000 in 1984—have vacationed in Cuba over the past few years, many are traveling on relatively inexpensive group package tours from Mexico, Spain, and Canada. Havana is still unable to attract the free-spending tourists who could significantly enrich the island's hard currency coffers.

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Tourism's contribution to the Cuban economy will be especially important over the course of the next few years as Havana grapples with economic austerity. Castro, in declaring a policy of "economic war" late last year, set as one of his primary goals the generation of increased hard currency earnings. Much of the increase is to come from nonsugar exports, but, given the poor hard currency earnings prospects for Cuban nickel, sugar, and citrus, Havana probably will rely heavily on tourism to achieve its objective.

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We believe that, at least for the short term, tourism will continue to contribute a steady, although modest, flow of hard currency to the economy. Tourism, however, probably will not produce the revenue necessary to ease the impact of Havana's current economic austerity policies. Over the longer term, tourism could become a significant Cuban export if the joint venture law is modified to the satisfaction of Western business interests and Havana is able to complete its costly upgrading of tourism facilities.

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Tourism Projects and Promotions

Over the next five years, the Castro regime plans to invest heavily in the development of tourist facilities. It has contracted with an Argentine firm at a cost of \$90 million to build eight fully equipped hotels with a total of 2,000 rooms in the Varadero area by 1990. According to the Cuban press, the runway at Varadero Airport is being extended, and hotels and shopping centers in the area are being remodeled. The press also reports that extensive improvements are

being made to the Jose Marti International Airport in Havana, and that by 1990 some 1,500 to 2,000 new hotel rooms will be built in the Cuban capital. []

[] Cuba has approached the Mexicans with a proposal to build six new hotels in Havana. []

Cayo Largo, a small island about 25 miles off the southwestern coast, appears to be the primary focus of development efforts. [] investors from Canada, France, Italy, Japan, Kuwait, Sweden, and Switzerland have expressed interest in the Cayo Largo projects, but there is no indication that any intend to commit funds. Havana reportedly plans to increase Cayo Largo's present 60-room hotel capacity, build a marina, expand the existing airport runway, and improve hunting and fishing facilities on the island over the next five years. []

[] a bank and shopping center are also under construction on Cayo Largo. []

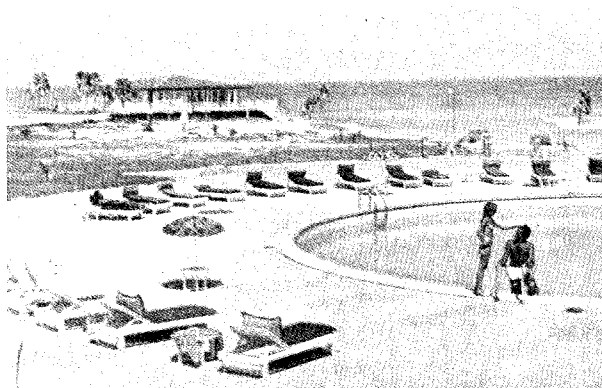
To supplement the earnings from vacationers, Cuba also is emphasizing tourist stores catering to Western consumers. The Cuban company Cimex is planning to open three large duty-free shops, including one at Varadero and another on Cayo Largo. []

[] the company has negotiated to buy 6,000 color televisions from Japan for resale at a much higher price in the tourist stores. []

[] a Cuban company in Tokyo intended to purchase \$55 million in Japanese consumer products this year, principally for resale to Cuban-American tourists. []

[] Mexican subsidiary of Cimex was seeking to purchase US consumer products to stock tourist stores in Havana. [] the government also is involved with several Panamanian companies in operating tourist shops in various Cuban hotels and resorts that will accept only US dollars as payment. []

Havana has been trying to increase its exposure to the Western market through promotional trips by Cuban tourism officials, the establishment of foreign travel offices, and sponsorship of travel conventions and foreign journalist visits. []



Pool at the Isla del Sur Hotel on Cayo Largo. [] Cuban Sunshine ©

[] Cuba is directing its promotional activities at Mexican, Canadian, and West European tourists who have the means to spend substantial amounts of hard currency. Over the past few years, delegations from the Cuban National Institute of Tourism have made annual promotional visits to West European countries, and tourist information offices have been established in Canada, Mexico, France, West Germany, and Italy. Havana says it is planning to open promotional offices in Spain, the United Kingdom, and the Scandinavian countries as well. Since 1981, Cubana Airlines and Aerocaribe Airlines—both owned by the government—have arranged charter flights from Canada, Mexico, France, Venezuela, West Germany, Italy, the United Kingdom, and Luxembourg. In addition, Cuba has held a trade show for foreign travel professionals each year since 1981 and has hosted conferences or sponsored tours for foreign journalists, travel agents, and travel writers. []

Havana also has attempted to improve the availability of travel-related services on the island for the convenience of tourists. Cuba began accepting international credit cards (except those issued by US banks) in 1981, and a limited number of rental cars are now available. Moreover, customs requirements have been eased for West European, Canadian, and Mexican visitors, who are permitted to use the Cuban Tourist Card, available from certain travel agencies, in lieu of a visa as their documentation for vacationing in Cuba. []

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Obstacles to Tourism's Growth

Although the regime is energetically pursuing the Western market, there are serious impediments to further growth in the tourism sector—the most damaging being Cuba's lack of access to the US market. Under the restrictions imposed by the United States in 1982, only Cuban-Americans, academics, journalists, and government employees are authorized to travel to Cuba. This has discouraged investment in the Cuban tourism industry by Western firms that might otherwise view such an undertaking as less risky and potentially profitable. []

In recent years, Cuban-Americans visiting Cuba have not been permitted to bring goods into the country. Instead, Havana has established retail outlets to capture hard currency from the visiting Cuban-Americans, who now must use these stores to buy household goods and other gifts for their Cuban relatives. However, the Castro regime's recent decision to bar Cuban-Americans from traveling to Cuba in retaliation for Radio Marti could cost Havana tens of millions of dollars in hard currency income. Hard currency sales to Cuban-Americans, in the opinion of Cuban tourism industry officials, could be worth some \$50 million this year if Castro lifts the travel ban. []

Another major impediment to tourism is a joint venture or foreign investment law issued by Havana in February 1982. Several restrictions contained in the law have served to inhibit foreign investment: labor must be hired through a state entity, state entities are granted first option for supplying inputs, Cuban management is required, and only minority foreign ownership is permitted. Western businesses are especially concerned that Cuba could take advantage of the law because it fails to adequately address the issue of expropriation. Although Cuba has made special provision for joint ventures in the tourist sector, such as exemption from all taxes, duties, tariffs, and special work regulations, these concessions have not been sufficient to encourage Western investment in Cuba's tourism industry. []

Cuba's untrained labor force and general economic inefficiencies also probably have discouraged investors and tourists. Western businessmen and travel agents have expressed concern over Cuba's creditworthiness,

the reported high rates of worker absenteeism, transport and warehousing bottlenecks, party interference in plant management, and poor worker service. Last November, the President of the Cuban National Institute of Tourism publicly criticized the low quality of tourism services. []

[] although West German tourists are offered inexpensive flights, few have wanted to return to Cuba for a second visit because of the substandard facilities on the island. []

[] two Japanese companies recently contacted by Havana to construct and finance a turnkey hotel project have serious doubts about Cuba's long-term creditworthiness. The Japanese firms were particularly concerned about Cuba's continued dependence on the weak world sugar market and said they probably would not participate in the proposed project. []

A severe shortage of first-class hotels, entertainment, restaurants, and other services also discourages visits by more affluent tourists. Cuba's beach resorts have only about 6,000 hotel rooms in the three-star and above category. Moreover, tourist groups visiting Havana are often lodged outside the capital during the winter months, when international conferences or conventions put a tight squeeze on the city's hotel space. Restaurant menus and food preparation have fallen far short of Western expectations, and nightlife is dull in comparison with the diversions offered at other Caribbean resorts. Rental cars and taxis are still few and far between, limiting the mobility of richer tourists not participating in group tour packages.

[] Havana seems to be caught in a bind; its troubles in providing first-rate tourist service often stem from the shortage of foreign exchange to purchase imported inputs, but its inability to attract well-heeled tourists in turn inhibits investment in tourism projects by Western developers. Argentina, Mexico, and Spain appear to be the only Western countries willing to assist the tourist industry. []

[] Mexico has granted Havana a \$13 million letter of credit for hotel renovations. Madrid agreed late last year to cooperate with Havana in researching tourist markets, in exchanging information on tourist

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We knew you were coming to Havana

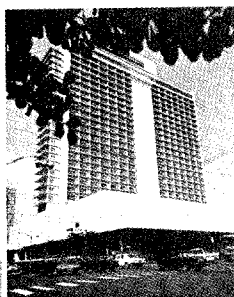
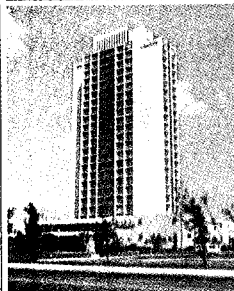
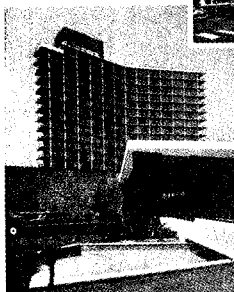
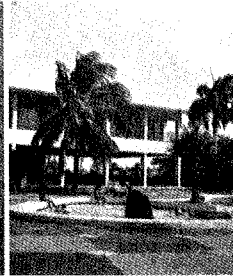
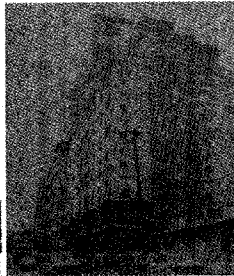
to be greeted with a smile

... that friendly gesture
and symbol of Cuban hospitality.

Welcome to our hotels !



- HABANA LIBRE
- HABANA RIVIERA
- NACIONAL DE CUBA
- CAPHI
- TRITON
- VELDADO
- ST. JOHN'S
- VICTORIA
- COLINA
- DLAUVILLE
- EL COLONY



A 1984 advertisement published by the Cuban National Institute
of Tourism. ☐

Cuban Sunshine ©

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legislation, hotel construction, and the formation of a Cuban center for tourist documentation. According to press reports, Havana also has contracted with a Spanish firm to manage four Varadero Beach hotels.

[REDACTED]

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Outlook

While tourism is likely to continue to provide a steady, albeit modest, flow of hard currency earnings, it probably will not contribute enough foreign exchange in the short term to help Havana counter the stagnation in other hard currency exports. The Castro regime probably will be disappointed if it expects tourism to make a significant contribution to hard currency income in the next five-year plan—1986-90. The modest prospects for tourism will also make it difficult for Havana to meet its goal of increasing nonsugar convertible currency earnings by 44 percent this year. [REDACTED]

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Tourism could become a significant Cuban export over the longer term under certain conditions. If the joint venture law were modified and the restraints on foreign investment weakened or removed, Western businesses may be more amenable to participate in the Cuban tourist sector. However, even if the foreign investment law were changed, a continued lack of access to the US market probably would discourage many, if not most, Western firms from Cuban tourism ventures. Should Havana overcome its current economic difficulties, it might be able to afford an expensive upgrading of hotels, stores, and restaurants to lure the more affluent tourists who now bypass the island. [REDACTED]

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**Cuba:
Castro Pontificates on
Third World Debt**

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President Castro's intensified campaign for Third World debt relief is an effort to strike out against the United States, win friends for Cuba, and divert domestic attention from the island's economic problems. Despite Castro's claims to the contrary, we believe that Cuba will have serious difficulties in meeting its own debt obligations, starting with the renegotiation of its 1985 debt principal with official creditors this summer.

Castro's Solution for World Debt

Castro has publicly accused Washington of leading creditor countries in an undeclared war against developing countries, using extortionate interest rates, depressed commodity prices, and trade protectionism. He asserts that the resulting Third World debt is "illegal" and must be paid by creditor governments, possibly through defense cuts. According to Castro, any legitimate foreign debt should be negotiated multilaterally by a debtors' club.

The campaign has broadened from Latin America to the Third World and has gained international attention as a result of highly touted interviews with Castro in Latin American and West European journals, by visits with high-ranking foreign officials, and Cuba's sponsorship of international debt conferences.
the campaign will culminate during the UN General Assembly this fall.

Castro probably believes he can use the issue to inflame opinion against the United States and to curry favor with Third World governments. The initiation of Radio Marti broadcasts, which Castro seems to have interpreted as the end of any chance for improving relations with the Reagan administration, has given the campaign added impetus. The heavy domestic propaganda accorded the debt proposals probably also is intended to portray Castro as a capable economic leader and to distract attention from Cuba's increasing financial pressures and fluid economic policies.

Cuba's Debt Problems

Castro has denied repeatedly that his debt proposals are self-serving, claiming Cuba has relatively few debt pressures. However, we believe that Havana will have serious difficulties meeting performance targets recently agreed to with its official creditors as the first step to rescheduling 1985 debt principal. Although the terms negotiated are generous, considering that Cuba failed to meet six out of nine of these targets last year, Havana's shortcomings may lead to a reevaluation of the agreement either later this summer, when repayment terms are renegotiated, or during a formal review proposed for October.

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For example, Havana will fall far short of the new target to increase nonsugar hard currency exports by some 40 percent this year. The short-term outlook is bleak for hard currency citrus and nickel earnings. The potential earnings from fuel reexports are limited because of stagnating Soviet oil deliveries and Cuba's growing domestic energy needs. Furthermore, bureaucratic tangles in Havana have prevented the development and marketing of nontraditional exports.

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We believe the goals for sugar exports to the West also are overoptimistic, in view of Cuba's production problems this year and Castro's vow to fill sugar quotas to CEMA countries first. Havana's disappointing hard currency export earnings, in addition to a hoped-for increase in Western imports, probably will contribute to a hard currency current account deficit this year far in excess of the \$48 million approved by Paris Club creditors.

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Creditor Targets and Performance,***Million US \$*

	1984	1985 Target ^a	
	Target	Actual	
Trade balance	319	83	226
Of which:			
Exports to the West	752	710	860
(Nonsugar exports)	473	457	636
Imports from the West	912	1,097	1,172
Current account	34	-236	-48
Short-term debt	1,026 to 1,140	1,138	1,045 to 1,100
Maximum gross debt	3,591	3,458	3,520
Minimum foreign reserves	171	204	165
Maximum net debt	3,249	3,254	3,190

^a Includes hard currency trade with CEMA as well as Western countries.

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**Brazil: Relations With the
Middle East—The
Primacy of Trade** []

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Brazil's policy toward the Middle East is driven mainly by the quest to expand markets for its exports, especially military equipment. In pursuing increased arms trade, Brasilia has been engaged in a delicate balancing act involving opposing blocs of Islamic Middle Eastern nations—Iraq and Saudi Arabia on the one hand, and Libya and Iran on the other. []

rockets, probably on behalf of Baghdad. Saudi investors also have bought stock in Engesa, the Brazilian company that manufactures armored vehicles for Iraq. The contract for rockets was part of a five-year Brazilian-Saudi military cooperation agreement reached in October 1984 that will facilitate additional purchases by Saudi Arabia of weapons for itself and Iraq. []

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Brazil's relations with Israel, although correct, are limited because Brasilia sees little market potential there and does not want to offend its Arab clients. The Brazilians also have kept a low diplomatic profile on Middle Eastern political and territorial disputes to avoid antagonizing any of the nations involved. []

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Iraq and Saudi Arabia

Iraq is the largest supplier of oil to Brazil, the largest customer for Brazilian arms, and a major purchaser of various other Brazilian industrial and agricultural goods and services. More than 2,200 armored vehicles and 60 Astros II surface-to-surface missile systems have been sold to the Iraqis since the mid-1970s, []

Relations With the Radicals

Libya has long been a customer for Brazilian small arms, ammunition, and armored vehicles, although Libyan purchases of Brazilian military equipment have fallen off in recent years. The reasons for this are unclear. Reservations among some Brazilian officials about selling arms to the notorious Qadhafi regime appear to be a factor; other officials, however, favor an expansion of military sales to Tripoli. The main obstacles appear to be the decline in international oil prices, which has adversely affected Libyan revenues, and Libyan pique over the Brazilian military's seizure in 1983 of a Libyan arms supply flight bound for Nicaragua. []

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[] moreover, the Brazilians have shipped uranium yellowcake to Iraq during the past two years and have shared some limited nuclear technology with Baghdad. []

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The Iran-Iraq war has led to increased Brazilian sales of military equipment to Iraq, despite Iranian objections. Brasilia claims that it provides Baghdad only with weapons ordered before the war's outbreak in 1980, [] the two countries recently signed a new contract for \$88 million worth of Brazilian armored vehicles. []

Because of its size, Iran offers a potentially larger market than other Middle Eastern nations for Brazilian arms, but Brasilia has resisted selling weapons directly to Tehran for fear of upsetting the lucrative trade with Iraq and Saudi Arabia.

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Nevertheless, Tehran has obtained Brazilian small arms and armored vehicles from Syria and Libya, []

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Brasilia continues to tolerate this leakage and evidently has no plans to impose restrictions on resales to third parties for any of its arms exports. The new civilian government of President Sarney apparently has left the door open to further military cooperation with Tehran once the Iran-Iraq war ends. For example, []

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[] Iranian helicopter pilots are currently being trained at a Brazilian naval base. []

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Saudi Arabia is an important financial backer for Iraq's trade with Brazil. In addition to selling oil and buying Brazilian steel and copper for themselves, the Saudis have helped bankroll Brazil's development of the Astros II missile system, intended primarily for Iraq. Recently, Saudi Arabia reportedly signed a contract to purchase \$300 million worth of Brazilian

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Since the early 1980s, Tehran has sharply expanded its purchases of Brazilian manufactures and chemicals. [redacted]

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[redacted] a new \$1.4 billion trade agreement—part of which will involve sales of Iranian oil in exchange for Brazilian trucks and tractors—may be signed soon. [redacted]

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Other Countries

Brazil has also sold a variety of products, including military equipment, to other Middle Eastern nations, including Algeria, Egypt, and Kuwait. [redacted]

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[redacted] Brasilia's recognition of the Algerian-backed Polisario Front over Moroccan objections was part of a major new agreement to exchange Algerian oil for Brazilian goods, probably including military equipment. This agreement again reflects the influence of trade on Brazil's policies toward the Middle East. [redacted]

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Outlook

The Sarney government probably will try to maintain good relations with all of Brazil's trading partners in the Middle East, hoping to keep open prospects for gaining new markets in such countries as Iran and Libya without jeopardizing established relations with other countries. Despite its desire to expand trade with Iran, as long as the Iran-Iraq war continues Brasilia probably will not sell weapons directly to Tehran for fear of antagonizing Iraq, its largest arms customer. [redacted]

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Even so, Brazilian exporting companies, particularly in the arms industry, will exert pressure for increased trade with the radical states. When circumstances permit, Brazil almost certainly will make a concerted effort to expand its military trade ties to Iran and Libya. [redacted]

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**Panama:
Reforming the Labor Code**

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Panama's labor code—a collection of some of the most proworker laws in the world—is cited by President Barletta, the business sector, and international lenders as a major impediment to economic growth. The administration's plan to revise the code in an effort to encourage investment and create jobs has been resisted by organized labor. Barletta now has some support from the military and the government party, however, and moderate reform of the work rules appears likely.

General Torrijos, Panama's strongman from 1968 until his death in 1981, built a political base outside the military by appealing to the urban working class. In 1972, he enacted a far-reaching labor code, which stipulates that a worker's salary cannot be reduced under any circumstances, bases severance payments on a sharply increasing scale, and provides fired workers an appeals process through the Ministry of Labor. It also guarantees collective bargaining and the right to strike, and grants workers the indirect benefits of social security, sick leave, workmen's compensation, a month's paid vacation, and an annual Christmas bonus equivalent to a month's salary. These benefits total about 36 percent of direct wages.

Impetus for Reform

As the Panamanian economy has languished since the late 1970s, businessmen increasingly have viewed the labor code as a hindrance to investment and growth. Strict provisions concerning layoffs and firings make it almost impossible to trim labor rolls, and the prohibition of any wage cuts inhibits the introduction of incentive systems aimed at increasing productivity. Moreover, employers complain of the difficulty of judging the competency of new employees during the short probationary period stipulated by the code.

Barletta has made revision of the code one of his government's primary objectives. Unemployment continues to be a major problem, and Barletta is unable to fulfill his campaign promise to generate 25,000 new jobs each year. The President hopes to

encourage foreign and domestic investment and expand employment opportunities by giving management greater control over work rules. He agrees with the claim of business leaders that they need freedom to negotiate flexible wage and productivity rates to develop assembly and piecework industries and generate export-led growth.

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Barletta's concern about the labor code is shared by international financial institutions, which argue that government meddling in the labor market must be eased to attract investors. The World Bank is calling for reform of the work rules as a prerequisite for a structural adjustment loan. Similarly, the IMF has listed code revision as a condition for rescheduling the \$3.6 billion foreign debt.

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The Political Process

Barletta encountered resistance as soon as he moved to reform the labor laws in March. Organized labor, which disputed any connection between unemployment and the code, sponsored a protest march of several hundred workers. Government party leaders reiterated their loyalty to the economic and social welfare model established by Torrijos as a means of forcing Barletta to give them additional Cabinet posts.

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General Noriega, Commander of the Panamanian Defense Forces, affirmed his approval of moderate revisions while cautioning the President to secure his political base first. With Noriega's quiet support, Barletta shuffled his Cabinet in May and began to make headway in winning government party backing in the legislature.

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party leaders claim to have sufficient control over the labor unions to ensure acceptance of changes. Moreover, the recently named Labor Minister is close to Noriega and presumably will help Barletta in negotiating with the unions.

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Leaders of the largest labor federation, perhaps sensing that reform cannot be blocked entirely, have indicated privately that they would be receptive to changes designed to increase worker productivity and facilitate dismissal settlements, [redacted]

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[redacted] They intend, however, to continue opposing efforts to reduce the minimum wage or weaken union organization. [redacted]

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[redacted] the Communist Party—which controls the other labor confederation—will oppose any changes that would reduce salaries or enable employers to fire workers more easily. [redacted]

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Prospects

We believe the odds favor moderate revisions in the labor code. Noriega apparently is maneuvering behind the scenes with the trade unions with which he has substantial influence. In response to this pressure and the government party's new support for Barletta, some union leaders appear ready to compromise, and the Communist Party probably will not be able to block reform on its own. On the other side, the IMF and World Bank have shown a willingness to accept moderate measures rather than demand an unrealistic reform that might provoke a serious political backlash. [redacted]

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Latin America Briefs

Mexico

President de la Madrid's European Tour

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President de la Madrid this month is taking his first major trip to Europe—a three-week visit to Great Britain, Spain, West Germany, Belgium, and France. He seeks financial, trade, and industrial technology agreements that would give Mexico increased access for nonpetroleum exports and the foreign exchange necessary to resume economic growth. As a Latin American spokesman, de la Madrid is likely to press European nations for support in obtaining more favorable terms for debtor countries, peaceful resolutions to Central American conflict, and world disarmament. Mexico, as a member of the Contadora Group, has wagered considerable national prestige on the Group's efforts to bring an end to hostilities in Central America, and de la Madrid may seek to enlist active European participation to revitalize the negotiations. He may also request that his hosts attempt to influence Washington to resume bilateral talks with Nicaragua. Having participated in a meeting in January in India on disarmament with counterparts from Argentina, Greece, Sweden, Tanzania, and India, he probably will call for the denuclearization of Europe.

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A strong performance in Europe may bolster de la Madrid's popularity at a time when, according to US officials, many Mexicans are growing impatient with his austerity measures and failure to curb corruption, and are showing disaffection with the ruling Institutional Revolutionary Party (PRI). He probably hopes that if he is successful in Europe, the PRI's stock will rise going into legislative and gubernatorial elections that will be held on 7 July, shortly after his return home. Some observers believe these elections will mark a crossroad in Mexican politics because of the particularly strong challenge the conservative National Action Party is expected to pose to the PRI in several races.

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Brazil

Agrarian Reform

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President Sarney proposed a far-reaching land reform program to the Congress on 27 May that calls for elimination of underutilized large estates and uneconomic small holdings, chiefly through expropriation. Some 7.1 million people would be resettled on such lands over the next 15 years. Sarney has decreed a 30-day period of national debate on the plan before legislative hearings begin.

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The US Embassy reports that landowners' groups have been sharply critical of the plan. The landowners claim that they do not oppose agrarian reform in principle, but that the new program goes too far and encourages illegal land invasions by peasants. over 20 people have been killed thus far in clashes between landowners' private militias and squatters acting in anticipation of land reform.

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According to the US Embassy, the government's abrupt introduction of the plan without advance publicity or consultations with interested parties has added to the controversy. Sarney and his Minister of Agrarian Reform already have publicly toned down their endorsement of the plan, and the President may take steps to water down the program during the weeks ahead to reduce opposition. If he cannot forge a consensus on the issue, however, further violence between squatters and landowners is likely.

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Cuba Chronology

May 1985

1 May

Fidel Castro leads Cuba's May Day parade through Revolution Square. From the reviewing stand, he and other leaders of the Central Committee watch 500,000 workers march by, chanting "for Cuba with Fidel."

Secretary General of the Central Organization of Cuban Trade Unions Roberto Veiga, speaking at the May Day celebrations in Havana, stresses support for cancellation of the foreign debt.

Brazilian Foreign Minister Setubal announces that his government is studying the possibility of reestablishing diplomatic relations with Cuba.

2 May

Havana TV reports that the US Government has asked the Nicaraguan Government to break relations with Cuba and the USSR as a condition for the suspension of the trade blockage imposed by the United States.

In a farewell ceremony for 100 departing Cuban military advisers, Nicaraguan Defense Minister Humberto Ortega says, "We are not stepping back even 1 millimeter in our relations with Cuba."

Deputy Foreign Minister Roberto Alarcon says the trade embargo imposed on Nicaragua by the United States, "is an irresponsible measure and part of an escalation that could include other types of action."

The Georgi Dimitrov Brigade of Cuban construction workers returns to Havana after working one year at the nuclear power plant in Kozloduy, Bulgaria.

4 May

In La Paz, Bolivian President Siles inaugurates the Ismaelillo pediatric intensive care unit donated by Cuba. Cuba's Vice Minister of Public Health Ramon Diaz Vallina attends the ceremony.

At a foreign meeting in Buenos Aires, Cuban and Uruguayan officials agree that a dialogue among Latin American countries on the debt problem is necessary.

Vice Foreign Minister Pelegrin Torras arrives in China. He visits Shanghai, Guangzhou, Shenzhen, Nanjing, and Beijing.

6 May

In Moscow, Lionel Soto, Ambassador of Cuba to the USSR, speaks at a press conference marking the 40th anniversary of the victory over fascism and the 25th anniversary of USSR-Cuban relations.

In a meeting with the diplomatic corps, Soviet Ambassador to Cuba Konstantin Katushev says that trade between the two countries will increase to more than 8 billion rubles per year.

In an interview in Paris, Isidoro Malmierca and his French counterpart Roland Dumas, discuss bilateral relations and agree to seek solutions to the conflict in Central America.

7 May

Argentine Planning Secretary Bernardo Grinspun attends the first intergovernment meeting on economic and scientific-technical cooperation in Havana. He predicts a promising future for relations.

Prensa Latina in Havana reports that the coordinating bureau of the countries of the Nonaligned Movement condemn the trade embargo and other economic measures imposed by the United States against Nicaragua.

Granma announces that Luis Castillo Campos has been named Cuban Ambassador to Rwanda.

Soviet official Ivan Kalin arrives in Havana to celebrate the 40th anniversary of the Soviets in the Great Patriotic War and the 25th anniversary of Soviet-Cuban relations.

8 May

Cuba and the Soviet Union celebrate the 25th anniversary of the establishment of diplomatic relations. Fidel Castro attends the ceremony in Havana; Raul Castro and Ivan Kalin speak.

Raul Castro says that Cuba's ties with the Soviet Union are as unshakable as ever and will remain so.

9 May

ILO Director General Francis Blanchard arrives in Havana to attend meetings with Roberto Veiga, CTC Secretary General.

Politburo alternate member Jesus Montane meets in Havana with Gerardo Iglesias, Secretary General of the Spanish Communist Party, to discuss the international situation and matters of mutual interest.

Raul Castro presides over a military ceremony on the 40th anniversary of the victory over fascism at the tomb of the Soviet internationalist soldiers in Havana. Ivan Kalin also is present.

10 May

Raul Saladrit concludes three days of meetings in Buenos Aires where it was decided that the two countries would carry out a broad program of scientific and technological cooperation.

Havana press reports that Uruguayan Senator Juan Adolfo Singer, while attending a meeting in Washington, said that his country plans to increase trade with Cuba.

Algerian President Chadli Bendjedid arrives in Havana and is greeted at the airport by Fidel Castro and Vilma Espin.

11 May

Fidel Castro decorates Bendjedid with the Order of Jose Marti in a ceremony in Havana, and Ramiro Valdes speaks of the deep roots between the two countries. Spiridhon Kyprianou receives the credentials of the new Cuban Ambassador to Cyprus, Guillermo Zurbitu Gomez, during a ceremony in Nicosia.

12 May

Mikhail Solomentsev, member of the CPSU Politburo arrives in Havana and is received by Jose Ramon Machado Ventura, Jesus Montane, and Flavio Bravo.

13 May

Algerian President Bendjedid and his delegation host a reception in honor of Fidel Castro. Ramiro Valdes, Armando Hart, and Jorge Risquet attend.

Algerian Minister of Foreign Affairs Ahmed Taleb Ibrahimi tells the press in Havana that during the meetings between Bendjedid and Cuban leaders, the issue of bilateral cooperation was raised.

Havana press reports that during his visit to Beijing, Pelegrin Torras met with his counterpart, Zhu Qizhen, to discuss bilateral relations and the international situation.

Raul Castro and Solomentsev discuss the 27th CPSU congress and the third PCC congress; they exchange points of view on building socialism.

14 May

Carlos Rafael Rodriguez receives the credentials of the new Mexican Ambassador to Cuba, Enrique Olivares Santana.

Beijing press reports that Pelegrin Torras and Gao Shangquan, Vice Minister of State for Restructuring the Economy, discussed China's economic restructuring at a meeting in Beijing.

Carlos Rafael Rodriguez and Solomentsev preside over the ceremony of the Cuban-Soviet Friendship Association marking the 40th anniversary of the victory over fascism.

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Solomentsev assures the Cuban people that the Soviet people have been, are, and will always be faithful friends and comrades.

15 May

Solomentsev and Fidel Castro exchange opinions on CPSU and PCC domestic and foreign policy and on topical international problems during a meeting in Havana.

16 May

The fifth meeting of the Mexican-Cuban business committee is held in Havana. Fidel Castro discusses Cuba's economic and social development with the Mexican business delegation.

Ramon Castro heads a technical-trade delegation to Guayaquil. In a press statement, Castro underscores the importance of international cooperation above all ideological differences.

Fidel Castro meets with a delegation of politicians and scientists from the FRG. He tells them that Nicaraguan President Ortega has asked the Soviets to cover his country's oil needs.

17 May

Solomentsev departs for the USSR. Jorge Risque and Jesus Montane bid him farewell at Jose Marti Airport.

Venezuela is negotiating the sale of 40,000 tons of steel to Cuba, and private firms in Caracas are negotiating to sell Cuba 30,000 tons of seamless pipes.

Bolivian President Hernan Siles Zuazo appoints Miguel Angel Flores as Bolivia's first charge d'affaires to Cuba. Bolivia resumed diplomatic relations with Cuba in early 1983.

19 May

Yasir Arafat meets with Deputy Foreign Minister Raul Roa Kouri in Tunisia to discuss the current situation in the Middle East, particularly in Lebanon.

20 May

The US launches Radio Marti, a Spanish-language broadcast service to Cuba. Fidel Castro reacts by suspending the immigration pact, halting all visits to Cuba by Cuban-Americans, and radio jamming.

Eleven former Cuban political prisoners, the first to be freed under a 1984 US-Cuba accord, arrive in Miami Airport minutes before Fidel Castro shuts off emigration from Cuba.

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21 May

TASS reports that Radio Marti's broadcasts to Cuba are "ideological sabotage" against the island.

Thousands of workers, students, and officials take part in Havana and other Cuban cities in demonstrations in support of the government's resolute reply to the United States for beginning Radio Marti.

A meeting is held with generals, officials, sergeants, soldiers, and civilian employees who work at the Ministry of the Revolutionary Armed Forces to denounce Radio Marti.

Uruguayan Chamber of Deputies President Antonio Marchesano arrives in Havana and meets with Flavio Bravo. Marchesano says the Latin American debt is an unbearable weight for Uruguay.

The papal nuncio to Nicaragua, Monsignor Andrea Laza de Monte Zemulo, arrives in Cuba.

22 May

The President of India's Atomic Energy Commission, Raju Ramanna, and the Executive Secretary of Cuba's Atomic Energy Commission, Fidel Castro Diaz-Balart, sign a bilateral nuclear cooperation agreement.

Raja Ramanna, Jose Ramon Fernandez, and Foreign Minister Malmierca discuss cooperation between the two countries. The Indian delegation tours places of scientific interest in Havana.

For the first time in 21 years, a Cuban parliamentary delegation visits Brazil. The delegation condemns the US embargo against Nicaragua and defends the principle of nonintervention.

Carlos Rafael Rodriguez discusses the Latin American debt situation with Uruguay's Chamber of Deputies President Antonio Marchesano.

23 May

Cuban Ambassador to the United Nations, Oscar Oramas, conveys a message from Fidel Castro to UN Secretary General de Cuellar in which Fidel calls the US decision to begin Radio Marti cynical and provocative.

Paris press reports that Cuban candidates for immigration can travel to the United States via other countries, despite the suppression of the immigration agreements between Havana and Washington.

Granma announces that Ana Maria Gonzalez Suarez was named Cuban Ambassador to Indonesia, with residence in Manila.

Torras visits industrial enterprises and meets with livestock-breeders and farmers in Ulaanbaatar.

Deputy Foreign Minister Pelegrin Torras visits Mongolia and discusses bilateral relations and international issues with his counterpart, G. Gashdabaa.

24 May

Madhav Keshav Mangalmurti, the new Indian Ambassador to Cuba, presents his credentials to Carlos Rafael Rodriguez.

Carlos Rafael Rodriguez receives the credentials of Tseliso Thamae, the new Lesotho Ambassador to Cuba.

25 May

In Luanda, Cuban Ambassador Rodolfo Puentes Ferro reads a message from Fidel Castro to Jose Eduardo dos Santos on the occasion of Africa Day; Castro reiterates his support for Angola.

27 May

Havana International Service inaugurates an hour-long Havana English broadcast to North America.

28 May

A protocol of the Intergovernmental Economic and Scientific meeting of Korea and Cuba is signed in P'yongyang by Yim Ki-song, Vice Minister of External Affairs, and Lester Rodriguez Perez.

Foreign Minister Malmierca receives Guy Penne, adviser to French President Mitterrand on African affairs, to discuss the international situation and bilateral relations.

UN Secretary General Perez de Cuellar arrives in Havana. Fidel Castro, Carlos Rafael Rodriguez, and Isidoro Malmierca discuss Central America, the world economic situation, and South Africa with the UN leader.

29 May

For the first time outside Europe, an exhibit of nuclear equipment and instruments from socialist areas begins in Havana.

Secretary General of the Central Organization of Cuban Trade Unions Roberto Veiga announces that a trade union conference of Latin American and Caribbean workers will be held 15-17 July in Havana.

Port of Spain Press announces that the new Cuban Ambassador to Trinidad and Tobago, Severino Mansur Jorge, presented his credentials to President Clarke on 23 May.

Fidel Castro and Perez de Cuellar visit the Isle of Youth. Fidel tells Namibian students that he is willing to send "200,000" more Cuban troops to Angola if South Africa fails to grant Namibia independence.

~~Secret~~**30 May**

Fidel Castro discusses Radio Marti with Penne. Castro says if the Americans give up transmitting from Radio Marti, Cuba will reverse its decision on suspension of the immigration agreements.

Penne tells AFP he is carrying a message from Fidel Castro to President Mitterrand requesting support for the Cuban position on the unpayable Latin American foreign debt.

At a press conference in Havana, Perez de Cuellar says that the UN will not request the withdrawal of Cuban troops from Angola because that is a bilateral matter.

Perez de Cuellar also says that he is very pleased with Fidel Castro's encouragement to him about Latin America's foreign debt.

During his talks with Castro, de Cuellar says that they did not officially discuss Radio Marti, but Castro said he felt it was an insult to name the radio station after Cuba's national hero.

31 May

Fidel Castro, Raul Castro, and other Cuban officials take part in a ceremony at Jose Marti International Airport where Perez de Cuellar departs for the Dominican Republic.

Havana TV announces that spring sugarcane planting is considerably behind schedule. Of the more than 13,000 caballerias that should be planted by now, only 8,941 have been.

The Soviet Union and Cuba sign a 1985 contract for oil supplies. Armando Marey, representative of Cubametals and Vladimir Morozov, General Director of the "Soyuznefteexport," sign the document.

Soviet Trade Minister Patolichev and Ricardo Cabrizas sign a trade protocol in Moscow totaling 8.2 billion rubles, which represents significant growth over 1984 and doubles the 1970 level.

During a technical stopover in Mexico City, Isidoro Malmierca says the US-Cuban immigration agreement will remain suspended until the provocations transmitted over Radio Marti cease.

Ecuadorean President Febres-Cordero receives Council of Ministers Vice President Jose Ramon Fernandez to discuss bilateral relations in education, public health, and the cattle and shrimp industries.



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